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Not Just More Jobs, But Better Jobs, Too!

Executive Summary

- The steady stream of strong employment data since the enactment of the 2003 tax legislation reflects a U.S. economy that is growing and producing valuable jobs for American workers.
- Having lost their argument that the economy is failing to produce enough jobs, the pessimists cling to the assertion that the new jobs simply are not good ones.
- A look at the employment figures over the past 34 months disproves this contention and demonstrates that the *quality* of new jobs continues to rise:
 - Nearly three quarters of the new jobs created during this period were in industry categories that pay an average hourly rate in excess of the overall average hourly rate in the private sector.
 - Compensation – wages and benefits – paid to workers in private industry has increased by 20 percent between January 1, 2001, and the end of 2005, well above the 16.5-percent increase registered during the first five years of the Clinton Administration.
 - Per capita after-tax disposable income, adjusted for inflation, has increased 7.7 percent since President Bush took office, as compared to a 7.4-percent growth rate during the comparable period of the Clinton Administration
 - Since the start of the Bush Administration, full-time employment has averaged 82.5 percent, nearly a full percentage point higher than full-time employment during the same period of the first Clinton Administration.
 - Nearly 83 percent of part-time workers in the March employment report indicate that they have chosen part-time employment for non-economic reasons.
 - Temporary jobs in March were only 1.9 percent of all payroll jobs in the private sector.
- Improving the quantity and quality of jobs remains a top priority for Republicans. In the words of Treasury Secretary Snow, “We won’t rest until every American who is looking for work can find a job.”

Introduction

The latest employment data released by the Bureau of Labor Statistics (BLS) continues to demonstrate strong job growth across the United States. In March, non-farm payroll employment increased by 211,000 net new jobs.¹ In the past 12 months, nearly 2.1 million net new payroll jobs have been created. Even more impressive is the fact that nearly 5.1 million new payroll jobs have been created since the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA or the 2003 Tax Act)² was enacted in May 2003 to stimulate economic growth and job creation.³ According to BLS' Current Population Survey (i.e., household survey), the unemployment rate has dropped to 4.7 percent, well below its peak of 6.3 percent in June 2003, and lower than the average of the last four decades.⁴ Today, more Americans are working than at any time in this country's history – 143 million individuals.

Nevertheless, the pessimists persist in their efforts to paint a dire economic picture in this country, in part by continuing their effort to focus attention on the *quality* of the jobs being created.⁵ That approach, however, is just as wrong as their previous criticisms. In fact, the U.S. economy is not only producing a steady stream of jobs, but jobs in well-paying industries. Whether it is quantity or quality, the employment situation in the United States is good, and it has improved steadily over the past several years. As summed up by a recent press report, "The U.S. economy isn't just producing jobs these days, it's also producing good jobs."⁶

Higher-Paying Jobs are Increasing

The core of the pessimists' argument is that the economy is only producing entry-level or low-paying jobs for unemployed Americans who really seek quality positions. A look at the BLS employment figures between May 2003, when the 2003 Tax Act was signed into law, and the latest figures for March 2006, provides a more optimistic picture. As Chart 1 (on page 3) illustrates, in the 34 months since the 2003 Tax Act was signed into law, nearly three quarters of the new jobs were created in major-industry categories that pay an average hourly rate in excess of the overall average hourly wage in the private sector.⁷

¹BLS, "Employment Situation: March 2006," USDL 06-607, April 7, 2006 – <http://www.bls.gov/news.release/pdf/empisit.pdf>.

²H.R. 2, 108th Congress, 2d Session, Public Law 108-27, May 28, 2003.

³BLS Establishment Data, May 2003 through March 2006.

⁴BLS, "Employment Situation: March 2006," Table A-1.

⁵Howard Dean, "Republican Policies Don't Help Hard Working Americans," The Democratic Party, June 3, 2005 – http://www.democrats.org/a/2005/06/dean_republican.php; Lawrence Kudlow, "Liberal Media Can't Talk Down Growing Economy," *Human Events*, March 20, 2006; *Wall Street Journal*, "Gloom and Doom," June 14, 2004.

⁶*Christian Science Monitor*, "U.S. Economy's Latest Output: Better Jobs," April 11, 2006 – <http://www.csmonitor.com/2006/0411/p01s02-usec.html>.

⁷BLS, "Employment Situation: July 2003," Tables B-1 and B-4, USDL 03-403, August 1, 2003 – http://www.bls.gov/news.release/archives/empisit_08012003.pdf (note: The July Employment Situation release provides final, rather than advance or preliminary, employment figures for May 2003); BLS, "The Employment Situation: March 2006," Tables B-1 and B-4.

Chart 1
Higher-Paying Industries Create More Jobs
between May 2003 and March 2006

| New Higher-Paying Jobs in the Private Sector | Job Increase May 2003 - March 2006 (thousands) | Average Hourly Earnings by Industry May 2003 - March 2006 | New Lower-Paying Jobs in the Private Sector | Job Increase May 2003 - March 2006 (thousands) | Average Hourly Earnings by Industry May 2003 - March 2006 |
|---|---|--|--|---|--|
| Utilities | -33 | \$25.80 | Manufacturing – nondurable | -401 | \$14.96 |
| Information | -218 | 22.01 | Other services | 77 | 14.23 |
| Construction | 718 | 19.30 | Retail trade | 363 | 12.19 |
| Natural resources & mining | 93 | 18.51 | Leisure & hospitality | 978 | 9.06 |
| Professional & business services | 1,212 | 18.02 | Total New Jobs Created | 1,418 | |
| Wholesale trade | 238 | 17.99 | | | |
| Financial activities | 310 | 17.73 | | | |
| Manufacturing – durable | -133 | 16.98 | | | |
| Transportation & warehousing | 250 | 16.62 | | | |
| Education & health services | 1,107 | 16.39 | | | |
| Total New Jobs Created | 3,928 | | | | |
| Percentage of Higher-Paying Jobs | <u>73.5%</u> | | Percentage of Lower-Paying Jobs | <u>26.5%</u> | |

Source: BLS (Household Survey), seasonally adjusted, May 2003 (final) and March 2006 (preliminary).
Note: The overall private-sector average hourly wage between May 2003 and March 2006 was \$15.92. Average hourly earnings reflect the overall earnings for private non-agricultural production or non-supervisory workers by industry sector. Totals reflect net increases in private-sector employment.

The chart shows that over the past 34 months, 1.2 million new professional and business-services jobs were created in an industry with an average wage of \$18.02 per hour – 13.2 percent more than the overall hourly wage average of \$15.92 during that period. In contrast, the retail-trade industry, which has an average wage of \$12.19, accounted for less than 7 percent of the new jobs created.

Moreover, recent studies indicate that U.S. college graduates are facing the best job market since 2001, particularly in higher-paying industries.⁸ Workers in business, computer, engineering, education, and health care are in high demand. In its annual outlook of entry-level jobs, consulting firm Challenger, Gray and Christmas attribute the positive job market to “solid job growth and falling unemployment.”⁹ A separate survey conducted by the National Association of Colleges and Employers found that employers are planning to hire 14.5 percent more new college graduates this year than a year ago.¹⁰ The survey also noted that graduates with economic or finance degrees will see the biggest gains with starting salaries up 11 percent

⁸Reuters, “Best Job Market in 5 Years for Grads: Report,” March 20, 2006.

⁹Reuters.

¹⁰Reuters.

to \$45,191, while accountant salaries are up 6.2 percent, civil-engineer salaries up 4.3 percent, and business-management salaries up 3.9 percent.¹¹

Employee Earnings and Benefits are Growing

The employment situation in this country has inevitably experienced expansion and contraction in certain industries as the economy has adapted to changing market pressures, yet overall employee earnings have continued to rise, as would be expected with the growth in well-paying jobs described above.¹² Since Republicans enacted the 2003 Tax Act, growth in hourly earnings for “production or non-supervisory workers” has occurred in each of the major industry sectors, as illustrated in Chart 2 below.¹³

Chart 2
Growth in Average Hourly Earnings
May 2003 - March 2006

| Major Industry Sectors | Average Hourly Earnings by Industry | | Percentage Increase |
|------------------------------------|--|------------|------------------------|
| | May 2003 | March 2006 | |
| Natural resources and mining | \$17.55 | \$19.47 | 10.94 |
| Utilities | 24.48 | 27.12 | 10.78 |
| Education and health services | 15.64 | 17.14 | 9.59 |
| Professional and business services | 17.24 | 18.79 | 8.99 |
| Information | 21.09 | 22.92 | 8.68 |
| Financial activities | 17.02 | 18.44 | 8.34 |
| Wholesale trade | 17.29 | 18.68 | 8.04 |
| Leisure and hospitality | 8.73 | 9.38 | 7.45 |
| Manufacturing – durable goods | 16.37 | 17.58 | 7.39 |
| Manufacturing – nondurable goods | 14.61 | 15.31 | 4.79 |
| Retail trade | 11.90 | 12.47 | 4.79 |
| Transportation and warehousing | 16.25 | 16.98 | 4.49 |
| Construction | 18.95 | 19.64 | 3.64 |

Source: BLS (Household Survey), seasonally adjusted, May 2003 (final) and March 2006 (preliminary).

¹¹Reuters.

¹²See U.S. Congress, Office of Technology Assessment, “Technology and Structural Unemployment: Reemploying Displaced Adults,” OTA-ITE-250, February 1986; Arnold King, “Progress and Displacement,” *TCS Daily*, September 27, 2002 – <http://www.tcsdaily.com/printArticle.aspx?ID+0927202C>. In particular, it is important to note that while manufacturing jobs have contracted over time, manufacturing output has risen as a result of new technology and productivity gains, and the former manufacturing jobs are being replaced rapidly by new, higher-paying jobs in other industries. *Wall Street Journal*, “The Great American Jobs Machine,” August 8, 2005 – <http://online.wsj.com/article/0,,SB112345310644607010,00.html>.

¹³According to the BLS, “production and non-supervisory workers” account for approximately four-fifths of total non-farm employment. The balance of the U.S. workforce consists predominantly of salaried workers and supervisory employees. BLS, “The Employment Situation: March 2006,” Table B-2 and B-4, footnote 1.

Chart 2 illustrates solid wage growth in the major industries. However, a broader measure of “compensation” provides a more complete picture – it covers all workers, not just production and non-supervisory positions, and it includes both wages and benefits. Between January 1, 2001, and the end of 2005, compensation paid to workers in private industry increased by 20 percent, well above the 16.5-percent increase registered during the first five years of the Clinton Administration.¹⁴ While the wage component of overall compensation has certainly not been optimal – averaging 3.1 percent per year over the past five years – it is just shy of the 3.6-percent average wage growth during the same period of the Clinton Administration.¹⁵ To put this difference into perspective, one should recall that, during the last five years, the nation has weathered a series of unprecedented events – a terrorist attack, recession, corporate-management scandals, wars in Afghanistan and Iraq, devastating hurricanes, and substantial increases in energy prices.

Moreover, the benefits component of overall compensation is often overlooked by employees because it does not appear in their paychecks. During the first five years of the Bush Administration, benefits have grown by an average of 6.3 percent per year as compared to a 3.0-percent average during the corresponding period of the Clinton Administration.¹⁶ The substantial increase in benefits costs is clearly indicative of higher health-insurance premiums in recent years, but it also suggests that employers are responding to market pressures with respect to the composition of total compensation. In order to attract and retain employees, employers respond to workers’ demands for benefits like health insurance, adjusting the mix between wages and benefits.

It is also important to keep in mind that employer-provided benefits, such as pensions and health insurance, are generally not subject to federal taxation, which increases their value to employees. In fact, the Joint Committee on Taxation estimates that the exclusion from taxation for pension contributions and earnings in pension plans amounts to a \$577.1-billion benefit to workers over a five-year period.¹⁷ Similarly, the exclusion for employer-provided health insurance and health care represents a \$534-billion benefit. In short, these two tax benefits represent over a trillion dollars in taxes that workers would have had to bear if they had paid for their pension and health-care benefits with after-tax wages.

Despite the positive increases in wages and benefits, pessimists often assert that inflation is effectively eliminating the growth in compensation for employees. An often-cited example is real (i.e., adjusted for inflation) average hourly earnings, a measure that only covers a portion of the workforce as noted above. Yet, the facts undercut their assertions since real average hourly earnings have exceeded inflation by 2.1 percent from the beginning of the Bush Administration through the end of 2005.¹⁸ While certainly not stellar, such growth is noteworthy given the

¹⁴BLS, Employment Cost Index, Seasonally Adjusted, 2001-2005 – <http://www.bls.gov/ncs/ect/home.htm>.

¹⁵BLS, Employment Cost Index historical data.

¹⁶BLS, Employment Cost Index historical data.

¹⁷Joint Committee on Taxation, “Estimates Of Federal Tax Expenditures For Fiscal Years 2006-2010,” Table 1, JCS-2-06, April 25, 2006 – <http://www.house.gov/jct/s-2-06.pdf>

¹⁸BLS, average hourly earnings historic data.

substantial increase in energy costs in recent years. Moreover, the broader measure of overall compensation has outpaced inflation by nearly 7 percent over the last five years.¹⁹

While the foregoing statistics demonstrate healthy growth in compensation, the real issue for American workers is disposable income – the dollars left after taxes that are available for living expenses, children’s education, family vacations, and retirement savings. In the first five years of the Bush Administration, per capita after-tax income increased by 20.4 percent,²⁰ in large measure as a result of the individual tax-rate reductions enacted in 2001 and accelerated in 2003.²¹ Nevertheless, the pessimists argue that inflation is eating away these wage gains. In fact, the per capita after-tax disposable income in real (*i.e., inflation-adjusted*) terms has increased 7.7 percent since President Bush took office, as compared to a 7.4-percent growth rate during the comparable period of the Clinton Administration.²²

Full-Time, Permanent Jobs are Still the Norm

As with the argument that the new jobs are poor quality, there is no merit to the contention that the new jobs are only part-time or temporary positions. Of the more than 143.6 million Americans working in March – a record high for this country – nearly 83 percent were employed in full-time positions.²³ During the first five years of the Bush Administration, full-time employment has averaged 82.5 percent, nearly a full percentage point higher than full-time employment during the same period of the Clinton Administration.²⁴ In addition, in the past year, the number of part-time employees has dropped by 168,000, with such individuals presumably moving to new full-time positions.²⁵

Moreover, of those individuals not working full time in March, nearly 83 percent indicated they chose part-time employment for non-economic reasons, such as family or personal obligations or working part time while in school.²⁶ As a result, only about 5 percent of part-time workers are currently employed in part-time positions because they could not find full-time jobs – well below the 8.5-percent average during the first five years of the Clinton Administration.²⁷

¹⁹BLS, average hourly earnings historic data adjusted for inflation using the BLS Consumer Price Index for All Urban Consumers for the relevant periods.

²⁰Bureau of Economic Analysis, National Income and Product Accounts Tables, Table 2.1, March 30, 2006 – <http://www.bea.gov/bea/dn/nipaweb/index.asp>.

²¹Economic Growth and Tax Relief Reconciliation Act of 2001, H.R. 1836, 107th Congress, 1st Session, Public Law 107-16, June 7, 2001; JGTRRA.

²²BEA, National Income and Product Accounts Tables.

²³BLS, “The Employment Situation: March 2006,” Table A-6.

²⁴BLS, Current Population Survey historic data.

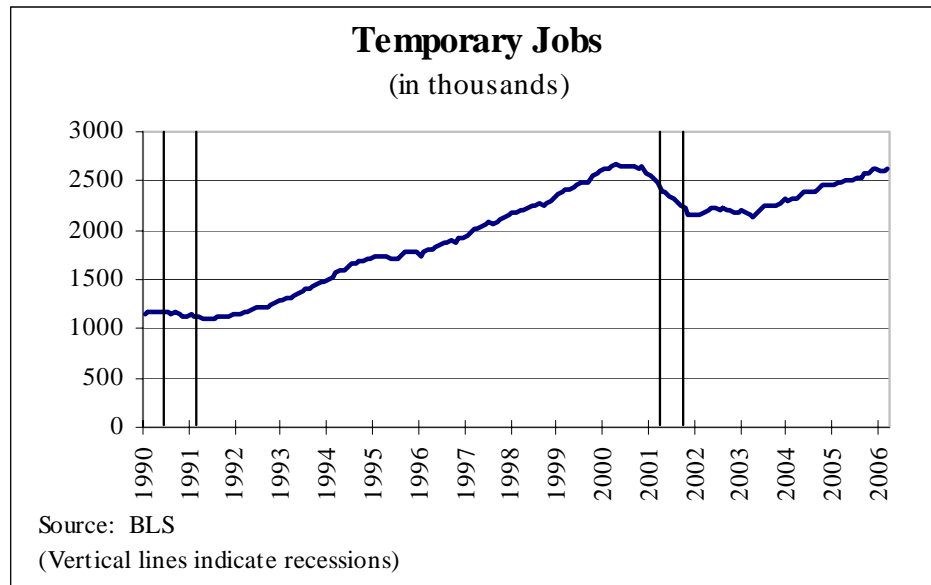
²⁵BLS, “The Employment Situation: March 2006,” Table A-6.

²⁶BLS, “The Employment Situation: March 2006,” Table A-5.

²⁷BLS, “The Employment Situation: March 2006,” Table A-5, and historic data. The remainder of part-time workers indicated that their part-time positions were due to “slack work or business conditions.”

Likewise, the argument that the economy is only producing temporary positions for Americans looking for work is also baseless. In fact, only 1.9 percent of all payroll jobs in the private sector in March were temporary jobs.²⁸ More broadly, growth in temporary positions should actually be expected since it is a positive economic indicator. As the economy recovers from a recession, temporary jobs tend to increase as employers gradually increase their business activity; in essence, the increase foreshadows permanent positions once the recovery takes hold. Accordingly, temporary positions tend to be a leading indicator of the economy's direction.²⁹

Chart 3



While the percentage of temporary positions is low in relation to total payroll jobs, the figure above illustrates that the growth in these jobs parallels the strong growth in the economy over the past several years, just as temporary positions grew following the end of the 1990-1991 recession.

Conclusion

The steady stream of strong employment data for nearly three years makes it difficult for the pessimists to persist with the argument that only poor-quality jobs are being created. It is important to remember that the U.S. economy is strong and growing, despite a series of significant economic shocks – the terrorist attacks of September 11, 2001, the 2001 recession, corporate-management scandals, the continuing war on terror, the 2005 hurricane season, and

²⁸BLS, "The Employment Situation: March 2006," Table B-1.

²⁹Steven P. Berchem, "The Bright Spot: American Staffing Association's Annual Economic Analysis of the Staffing Industry," American Staffing Association, May-June 2004, pp. 5-6 – <http://www.staffingtoday.net/staffstats/annualanalysis04.pdf>.

increased energy prices. At the same time, Republicans would not want to imply that the significant improvements in employment are sufficient: In the words of Treasury Secretary John Snow, “There are still challenges ahead, of course, and we won’t rest until every American who is looking for work can find a job, until the opportunity for an improved standard of living is truly within the reach of every American. That’s the President’s objective, and it’s a goal we pursue every day.”³⁰

³⁰Treasury Secretary John Snow, in remarks made at the University of Mississippi, April 12, 2006, Treasury Department Release JS-4178 – <http://www.treasury.gov/press/releases/js4178.htm>.